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SUBJECT: NORTH KOREA ECONOMIC BRIEFING - NOVEMBER 2008

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#### Domestic Economy

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[11](#). (U) DPRK Bond Prices Low and Falling: Radio Free Asia (RFA) reported November 7 by quoting Exotix Limited, a United Kingdom-based investment bank, regarding North Korean bond prices -- "The price has fallen since July this year. The market then was in the mid 20 cents, but it is now in the teens." RFA also quoted Stuart Culverhouse, chief economist of ICAP, a British financial

firm, as saying "I don't think removal of North Korea from the list of state-sponsoring of terrorism has any real practical consequences at this stage. I think the slower pace of the Six Party Talks is making progress from here harder." RFA said that North Korea's outstanding bond debt is estimated at USD 1.6 billion.

¶2. (U) DPRK Cuts Food Ration for Farmers: Good Friends, a South Korea-based civic group helping North Korea, alleged on October 23 that North Korea has ordered cuts in the food ration level for farmers and is shifting the allocation to ensure the military has a full food supply.

¶3. (U) DPRK Records 43 Percent Worsening in Hunger Index Score: North Korea recorded a 43 percent increase (worsening) in the International Food Policy Research Institute's 2008 Global Hunger Index report. The DPRK's overall hunger rating was at the upper end of the 'serious' level but still below the threshold for the 'alarming' or extremely alarming' levels. The report was footnoted regarding the unreliability of data for North Korea.

¶4. (U) UN: DPRK Urgently Needs Food for 40 Percent of Population: According to a FAO/WFP Crop and Food Security Assessment Mission report widely cited in the ROK press, North Korea will urgently need food aid for about 8.7 million North Koreans, mostly young children, pregnant, nursing women and elderly people (40 percent of its total population of 23 million) for the year through October 2009. It was the first time such comprehensive field assessment mission since ¶2004. The FAO/WFP join mission consisting of six experts visited six regions including Hwanghae and Pyongan Provinces in the North on October 9-24 this year to assess fall harvests. The report estimates total food production to be 4.21 million metric tons for

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November 2008–October 2009. The report concludes that North Korea will face a cereal deficit of 836,000 metric tons, assuming commercial imports of 500,000 metric tons. The report attributed the low output of the farming sector in the North to:

- Long-term decline in soil in fertility;
- Shortages of inputs;
- Extreme weather events;
- Structural issues including constraints on market activities
- Low fertilizer supplies (60 percent of 2007 levels)
- Low fuel supplies (70 percent of 2007 levels)

#### Foreign Aid

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¶5. (U) Italy Provides Food Aid to DPRK: RFA reported November 12 that the Development Cooperation Office of the Italian Foreign Ministry decided to provide USD 320,000 worth of grain to North Korea. The Italian government said that the food aid was a part of its bilateral assistance program. The food will be delivered to North Koreans in the first half of next year.

¶6. (U) German NGO Working to Complete Water Purification Project this Year: RFA reported November 11 that an NGO, German Agro Action (GAA), plans to complete water purification projects in North Pyongan and Gangwon Provinces in the North by end of this year. GAA replaced obsolete water pipes and refurbished water tanks and pump facilities. Once the projects are completed, 30,000 North Korean will benefit from the improvements. North Korea has been requesting assistance in water purification and sewage systems since ¶2000. Several South Korean and European civic groups including GAA, UNICEF and IFRC have been involved in drinking water and sanitation projects in North Korea.

¶7. (U) Swiss NGO Installs Wind Power Project, Considers More: RFA reported November 18 that Campus feur (actual spelling: f - u umlot - r) Christus, a Swiss NGO, provided a 300W windmill and a 2KW windmill last year and installed them in Hwangjoo County, North Hwanghae Province, in North Korea. If the current evaluation shows the project to be successful, the NGO will install more windmills in the North next year. The NGO also plans to provide technical training beginning next March.

¶18. (U) WFP Seeks More Food Aid for DPRK: Officials from FAO and WFP visited the ROK's Ministry of Unification (MOU) in late October and urged the government to help resolve food shortages in North Korea. Jean-Pierre de Margerie, WFP's Pyongyang Office Director said to the MOU that "millions" of North Koreans still face malnutrition and warned of a "humanitarian emergency." The MOU, however, said "It's our assessment that the current condition does not represent a serious crisis in North Korea this year. North Korean officials have told NGOs that grain crop yields this year are not bad." Kim Ho-nyeon, an MOU spokesperson, said that rice and potato farming have gone well in the North despite South Korea's decision to withhold fertilizer assistance this year. WFP set a goal of providing more than USD 500 million worth of emergency food aid to North Korea in the next 12 months. WFP officials have been seeking aid from donor nations to help meet that goal. WFP asked to provide up to USD 60 million worth of aid last August. WFP reported that much of the farming equipment in the North, including tractors and trailers, are in a state of poor repair. North Korea also lacks energy to run its farming equipment and does not have enough chemical fertilizer.

¶19. (U) ROKG Allocates Budget for USD 460 Million in Possible Aid to DPRK: The MOU announced in October that it earmarked 643 billion won (USD 460 million) for a possible shipment of rice and fertilizer to North Korea in 2009, categorized as humanitarian aid. Based on ROKG policy pronouncements, an improved political environment would be required before the aid would be procured and provided.

¶110. (U) Fourth U.S. Shipment of Food Aid (25,060 mt) to DPRK: Yonhap News Agency reported that the United States aid agencies including Mercy Corps, World Vision, Samaritan's Purse, Global Resource Services and Christian Friends of Korea, shipped 25,060 metric tons of bulk corn and soy beans arrived in Nampo port, North Korea in late November. The food is to be distributed to 894,000 vulnerable North Koreans through public distribution centers, orphanages, schools and hospitals and nurseries in Jagang and North

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Pyongan Provinces. This is the fourth shipment since the U.S. government committed to provide 500,000 metric tons of aid through USAID.

¶11. (U) Australia and Canada Respond to WFP's DPRK Emergency Food Aid Request: RFA reported in late October that the Australian and Canadian governments have decided to contribute USD 3 Million and USD 2 Million, respectively, to the WFP emergency operation to help tackle food shortages in North Korea due to poor harvests, flood damage and the sharp rise in fuel prices.

¶12. (U) Kuwait-DPRK Sign Loan Agreement: Voice of America reported November 20 that Kuwait Fund for Arab Economic Development (KFAED) and North Korea's Ministry of Urban Management signed a cooperation agreement on November 19 in Pyongyang, North Korea. The agreement lends USD 21.7 million to North Korea to finance a sanitation system project in Pyongyang. KFAED said in a statement that the project will help improve the environment and public health by raising the performance of the city sewage systems.

#### Inter-Korean Economic Cooperation -----

¶13. (U) DPRK Halves ROK Staffers at KIC, Suspends Kaesong Tour and Railway: North Korean authorities demanded on November 24 that South Korea halve the number of South Korean staffers at the KIC beginning from December 1 this year. North Korea also asked Hyundai Asan Corporation (HAC), which has operated the Kaesong city tour since it began in December 2007, to suspend the tour. In addition, the North Korean authority asked the South Korean government to halt inter-Korean railway linking Munsan, South Korea and Bongdong, near the KIC in North Korea and to close down the Inter-Korean Economic Cooperation Office at the KIC, a communication channel for economic cooperation projects between the two Koreas out of the KIC.

¶14. (U) Over 4,000 South Korean managers and construction workers

belonging to the Kaesong District Management Committee (KIDMAC), HAC, HAC's subcontractors and South Korean state-owned firms such as KEPCO and 88 South Korean factories were operating in KIC until late November. MOU spokesman Kim Ho-nyoun said November 30 that the South Korean government asked the North to allow 1,628 South Koreans to stay at KIC, however, the North's final notification was set at 880 South Koreans. The 880 include 31 South Korean government officials and employees of state-owned firms such as KEPCO; 40 HAC staff; nine supervisors for cafeterias and other convenience shops and a medical center in the KIC; and, 800 managers working for KIC firms. The 880 South Koreans were authorized to stay in KIC for only a week per visit (previously two weeks). South Koreans are also prohibited from carrying any South Korean newspaper into KIC, a practice previously allowed. The MOU official said that the KIC firms may experience management disruptions, logistical constraints and other difficulties due to the restrictions.

¶15. (U) In the meantime, the South Korean firms in the KIC will ask the South Korean government to compensate them for their losses if inter-Korean relations continue to deteriorate. About 130 South Korean firms at KIC say that their sales dropped by 60 percent in November due to escalating tensions between the two Koreas. Experts agree that closing down of the KIC could seriously hurt the investment environment in North Korea.

¶16. (U) October Inter-Korean Trade Falls 23% to USD 160 Million: MOU said November 23 that inter-Korean trade in October this year dropped 23 percent year-on-year to a total of USD 160 million, mainly due to worsening ties between the two Koreas. It was the first time that inter-Korean trade recorded such a reduction on a yearly basis in recent months. An MOU official suggested that other factors were also involved: "The reduction in inter-Korean trade appears to reflect the economic recession in South Korea including depreciation of the won against the US dollar and the suspension of Mount Geumgang tour."

¶17. (U) KEPCO Loses USD 14 Million on KIC Electricity Supply over Four Years: Kim Ki-hyun, a lawmaker from the ROK's Grand National Party, quoted materials presented by the Ministry of Unification on October 16 that Korea Electric Corporation (KEPCO), South Korea's electricity monopoly supplier, has lost 14 billion won (approximately USD 14 million) for electricity supply for the Kaesong Industrial Complex (KIC) over the last four years, 29

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percent of it in just the first nine months of this year. KEPCO supplied KIC with 7,131 MWh in 2005, 28,157 MWh in 2006, 45,574 MWh in 2007 and 50,733 MWh through September of 2008 at subsidized rates. The low prices were set at the request of the South Korean government.

¶18. (U) Number of South Korean Tourists to DPRK Plunges 88 Percent in September: Due to stalled inter-Korean relations, the number of South Korean tourists to North Korea was down by 88 percent in September this year over the same month a year ago. The total number of South Korean tourists to North Korea (Kaesong) in September was 5,206 persons; the popular Mount Geumgang tour was suspended in July following the killing of a South Korean tourist.

¶19. (U) A ROK Chicken Franchise in Pyongyang Succeeds: Choi Won-ho, President and CEO of Mattdaero Chondalk (Delicious Country Chicken) told Yonhap News Agency in late October that the Rakwon Chicken Restaurant, a joint venture chicken home delivery with North Korea's Rakwon General Trading Company, is doing good business since its opening in Pyongyang in June this year. Choi said that the restaurant's monthly sales turnover amounted to 18,000 Euro (USD 22,300). Turnover is approximately 100 chickens per day, Choi said. Chicken is sold at a price similar to that in South Korea (USD 11), which is expensive when contrasted with North Korean workers' average monthly income of USD 20-40.

Foreign Trade and Investment  
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¶20. (U) Japan Extends Economic Sanctions against DPRK; More Actions

Possible: The Korea Trade and Investment Promotion Agency (KOTRA) quoted Sankei Shimbun on November 12 as saying that the Japanese government has recently extended economic sanctions against North Korea for six months. In addition, the Japanese main opposition Democratic Party said on November 5 that the Party would adopt a bill of additional economic sanctions against North Korea. The bill consists of 14 provisions including restriction of exchanges of goods, personnel and cash. The bill would also have Japan designate North Korea as a state sponsor of terrorism.

¶21. (U) DPRK Reportedly Bans Chinese/Russian Goods from State-run Stores in 2009: RFA quoted a Japanese source in late October indicating that North Korean authorities announced a ban on sales of Chinese and Russian goods at state-run shops from next year. According to the notice, state-run shops in North Korea will be allowed to sell only North Korean agricultural products, fishery goods and goods processed for re-export. RFA also cited Chinese traders doing business with North Korea as saying that currently around 90 percent of industrial goods, food and daily necessities sold in the North are imported from China.

¶22. (U) DPRK-Kuwait Sign an Air Service Agreement: KCNA reported in late October that North Korea and Kuwait signed an air service agreement. Jong Ho, the North Korean Ambassador to Kuwait, and Fawaz Abdul Aziz Al-Farah, chairman of the General Council of the Civil Aviation of Kuwait, signed the agreement. North Korea currently operates direct air service with China, Russia and Thailand. The report did not contain specifics on whether the countries anticipate the initiation of scheduled air service.

¶23. (U) Air Koryo Plans to Replace Aircraft to Compete with Air China: RFA quoted a Chinese tour agency that jointly operates North Korea tour programs as saying that North Korea's Air Koryo reportedly plans to replace some of its aircraft with Illyushin II-96 or Sukhoi Super Jet 100s. Air Koryo already bought one Tupolev-204 last December. The Chinese company said that Air Koryo's planned move is intended improve competitiveness with Air China on the Pyongyang and Beijing route. The new aircraft are reportedly to be equipped with business-class seats, LCD display screens and music players for passengers. North Korea has already replaced Russian airport buses.

¶24. (U) Refurbishment of Rajin-Khasan Railway Link Begins: North Korea and Russia held a ground breaking ceremony to refurbish Rajin-Khasan railway link in October. Representatives from the Russian Railway Corporation and North Korea's Rajin Port Management Company, and North Korea's Railway Ministry together with foreign diplomats from Britain, Germany, Czech Republic, India and Mongolia

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were present at the ceremony. Chosun Sinbo, a pro-North Korea newspaper based in Japan quoted Vladimir Yakunin, president of Russian Railway Corporation, on October 14 as saying that the Rajin-Khasan railway will be able to transport 35,000 containers in 2011, 70,000 containers in 2012, and 100,000 containers in 2013 respectively. Bae Ho-chol who is responsible for running the Rajin port in North Korea gave a very different set of numbers to Chosun Sinbo -- 200,000 containers as of end of October 2010 when the container terminal of the port is completed. He added that the new port terminal will be able to handle up to 400,000 containers. South Korea's Railway Corporation and a consortium consisting of several logistics firms have decided to invest 40 percent stakes in the DPRK-Russia railway project as the project is evaluated as a profitable one unlike other investments in the North, Dr. Ahn Byung-min at Korea Transport Institute said.

¶25. (U) MasterCard Will Not Enter DPRK: RFA reported October 22 that MasterCard International Corporation will not enter the North Korean market due to the lack of a financial system. MasterCard said it would consider exploring the North Korean market if its financial organizations and system are developed to handle credit card business. China's Koryo Tour Agency that runs North Korea tour programs said that many foreign tourists visiting North Korea reportedly wish to pay with credit cards there.

